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PERMISSION MARKETING: MARKETING COMMUNICATIONS, CUSTOMER RESPONSE AND SALES EFFECTIVENESS

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ABSTRACT

This paper explores issues relating to the effectiveness of permission marketing initiatives. The goal is to analyze sales response of a permission marketing program along with its sales effectiveness compared to a simultaneous traditional advertising program. It attempts to determine the ability of permission marketing initiatives to yield segmentation descriptors.

INTRODUCTION

Permission marketing, a term first coined by Godin (1999), is changing the way marketers communicate with customers. Permission marketing is an approach to selling goods and services in which a prospect explicitly agrees in advance to receive marketing information (Godin 1999). With the advent of Internet technology and email communication avenues, marketers now have added another communication tool to their media arsenal allowing them to change the way they communicate and develop relationships with their customers. This growing promotional tool is impacting the way marketers communicate with prospects and customers. According to Jupiter Research, advertisers were to have sent 268 billion e-mail messages in 2005; 22 times the number of messages sent in 2004 (Jupiter Research 2001).

The consumer benefit is the receipt of relevant messages yielding several advantages. According to a model by Pavlou and Stewart (2000), first, by sending meaningful and sought after information, the consumer is likely to be more receptive to its content. Second, permission marketing may reduce search time involved in making purchase decisions and therefore provide the customer with the economic value of reduced search time. Third, the customer's active participation in the advertising process is likely to increase advertising effectiveness.

There also exist benefits to the marketer. First, permission marketing invites the marketer to communicate, persuade and sell. The cost of marketer-to-consumer communication is low on the Internet (Hoffman & Novak 1996; Shiman 1996),

yielding cost savings and increased efficiencies. Traditional advertising, even with targeting efforts, has waste coverage resulting in increased cost per contact. Conversely, permission marketing's production and distribution costs are less while yielding superior targeting performance (Godin 1999).

According to IMT Strategies (1999), more than 40% of all email users feel very positively or somewhat positively about permission email marketing, and 70% of Internet users have clicked either a few times, several times or often on advertising messages sent by permission email, compared to just 30% in the case of unsolicited commercial email. This research also suggests permission email marketing is five times more cost-effective than direct mail and 20 times more than Web banners.

Though these benefits are significant, the application of permission marketing has its challenges. To what extent has permission marketing allowed marketers to cut through traditional advertising clutter and impact purchases (advertising issues)? What perceived value must customers receive in order to take action (consumer benefits versus costs)? Does permission marketing provide for effective segmentation (predictive segmentation)? These topics are becoming more important as marketers continue to make permission marketing part of their overall integrated communication plan. Finding effective and cost efficient methods of identifying, communicating and selling products and services to the intended market group has become even more important in a result oriented management environment.

LITERATURE REVIEW

Advertising issues

Despite the benefits to both consumers and marketers, permission marketing may still contend with effectiveness issues (Pavlou and Stewart 2000). There exist at least three inherent issues associated with traditional advertising effectiveness related to permission marketing.

First, the purchase decision process begins with a perceived need. According to Pavlou and Stewart (2000), customers who are not currently in the market for a given product are less likely to respond to interactive advertising. Second, integrated marketing communication programs do not rely solely on one advertising medium. Campaigns are comprised of several media in order to create synergistic effectiveness of the campaign. Interactive advertising may well make the determination of precisely what marketing actions produced a particular outcome even more difficult to do. The influence of any particular advertising message may be less important than the cumulative reciprocal communication between advertiser and consumer (Pavlou and Stewart 2000). Third, advertising programs do not exist in vacuums. Socio-economic, channel member and competitor initiatives factor into sales results. In-market sales are the result of a complex set of events the marketer has little control (Pavlou and Stewart 2000) making sales measurement even more complex and less discernable. For example, competitors and retailers may implement their own advertising programs or adjust pricing. These factors interact with a fluctuating economic environment (prosperity, recession, etc.) influencing advertising effectiveness.

According to Pavlou and Stewart (2000), when people select that to which they attend (interactive media), the act of attending becomes a powerful determinant of advertising response. The traditional paradigm for examining the effects and effectiveness of advertising has served the profession well, but it is incomplete in an increasingly interactive context. For example, where a consumer obtains information via interactive advertising, but buys from a traditional retailer, it may be very difficult to associate the advertising with the sale. Thus, the advent of interactive advertising will not necessarily make it easier to measure the effectiveness of advertising in terms of sales. This will continue to be an area of important research on the measurement of the effectiveness of advertising even as advertising

becomes more interactive (Pavlou and Stewart (2000). As the foregoing discussion suggests, there is little empirical evidence to show the degree of correlation between permission based marketing communications and in-store sales effects.

Consumer benefits versus costs

Advertising messages of any nature yield both consumer costs and benefits. Permission marketing includes consumer costs that are comprised of entry costs, message processing costs and privacy costs (Krishnamurthy 2001). First, entry costs are the effort the consumer makes to provide permission to opt-in to receiving email communications from an advertiser. This may include such tasks as completing a form (either online or in writing) and providing personal preferences and information. Second, message processing costs are the time and energy expended by the consumer to receive, cognitively catalog and comprehend the volume of their permission marketing messages. Third, privacy costs are the concern consumers have regarding the security and use of their personal information (Krishnamurthy 2001).

According to Krishnamurthy (2001), consumer benefits of permission marketing include the message relevancy and monetary benefit. The more relevant the message is to the consumer's needs, the higher the perceived value of the program. Likewise, monetary benefit (either through payment for participation or savings on purchases) impacts customer value and therefore economic benefit. Krishnamurthy (2001) makes one final association related to consumer benefits; the higher the message relevance, the lower the impact of monetary benefit on consumer interest in the permission marketing program. If the customer has sufficient interest in the program and/or message, low or no monetary value is needed for participation; there is enough value in the message relevancy alone.

While permission marketing efforts can improve the relevance of advertising messages, consumers are asked to do more in comparison to more traditional direct marketing approaches. Overall consumer interest in permission marketing is determined by the net impact of these benefits and costs (Krishnamurthy 2001). Therefore, as Krishnamurthy suggests, the consumer benefit of relevancy and benefit of the permission marketing message should exceed the cost of receiving, comprehending and responding to permission marketing initiatives.

Predictive segmentation

Predictive demographic classification of online behavior, including permission marketing efforts, seems elusive. A study of 2,466 Internet users found no dominant forms of online behavior by groups of people who routinely engaged in one sort of activity over others (Rozanski et al. 2001). Regardless of stated preferences, demographics, and lifestyle characteristics, users showed distinct behavior in distinct occasions, each time choosing what fit their needs and mood. This suggests the basis for effective segmentation and targeting are needs, not demographics, lifestyles, attitudes, or even stated interests (Tizende et al. 2002).

Godin (1999) suggests permission marketing improves segmentation and targeting precision. Permission marketing utilizes the concept of self-selection: providing customers with the power to choose the information they wish to receive. As a result, permission marketing enables the marketer to identify segments, create databases and deliver messages to each segment appropriately. The question of traditional demographic segmentation analysis for permission marketing has not been well addressed nor has the question of commonality among permission marketing respondents.

RESEARCH HYPOTHESES

The goal of the paper is to analyze 1) the sales response of a permission marketing program; 2) a permission marketing program's sales effectiveness

compared to a simultaneous traditional advertising program; and 3) the ability of permission marketing to yield segmentation descriptors.

How effective is permission marketing in generating consumer response? According to Best (2005), marketing communication follows a hierarchical set of customer response effects. There exist several hierarchies of effects models that are similar in nature and structure. The hierarchy of effects model is based on the premise marketing communication moves individuals systematically through a series of psychological stages such as exposure, awareness, comprehension, intention, and action.

According to Best's model, exposure is defined as transmission of message; exposure to the ad. Awareness is defined as reaching the customers; making the target audience aware of the ad. Comprehension is defined as communicating meaningful (value) benefits in the ad content. Intentions are measured as a strong value proposition; motivation of the consumer. Action is measured as an actual purchase or sale.

The overall customer response index (CRI) for the combination of effects in the response hierarchy is the product of the proportions of individual effects that comprise its combination. The CRI equals the awareness percentage times the comprehension percentage times the interest percentage times the purchase percentage (Figure 1).

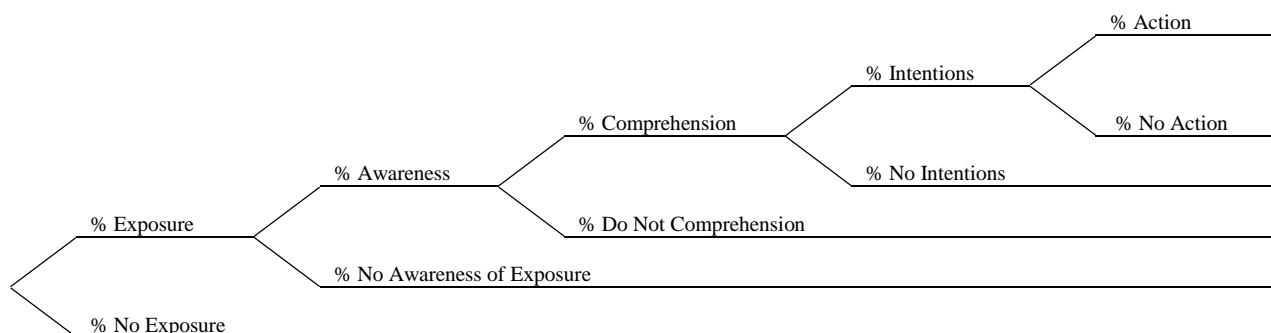


Figure 1: Customer Response Index (CRI) Model

The CRI model, utilized by Arndt (1994), provides a benchmark for marketing communication performance evaluation. Results at individual levels can be evaluated for performance improvements at each stage while the overall CRI score rating yields a standardized scoring system allowing longitudinal analysis of communication programs. In Arndt study, the CRI model tested the effectiveness of a marketing communication program. The tested firm had low levels of awareness in the industry according to a market research study. A marketing communications program was implemented for nine months to attempt to improve this awareness level among the firm's target market. Following the campaign, a post-test study was conducted showing a 30% increase in unaided recall (Best 2005). The following hypotheses were developed based on Best's CRI model to determine the net response for the experimental permission marketing initiative.

Since permission marketing recipients request information, there is the likelihood email messages will be opened and the recipient exposed to the message (Krishnamurthy 2001; Salo and Tähtinen 2005). According to a survey conducted by DoubleClick (2001), 65% of participants responded that permission based emails were their preferred method of learning or being notified about new products, services, and promotions. The link between the consumer's interest and the information contained in the permission marketing email would generate higher levels of attention and comprehension to the message.

H1: Permission marketing communications are likely to have a significant effect on awareness of the promotional message.

Since permission marketing recipients request information, there is the likelihood they perceive and economic value (economic or time savings) (Krishnamurthy 2001). In addition, financial incentives improve the intention to participate in permission marketing messages (Kavassalis et. al. 2003).

H2: Permission marketing communications are likely to have a significant effect on the respondent's comprehension of the value of the offering.

Since permission marketing recipients request information, there is the likelihood the effort will result in a sale. There is little empirical evidence that links permission marketing efforts to in-store sales. However, in related studies click through rates

(defined as clicking on a link taking the user to the sender's website) for permission marketing messages generate approximately 3% (Rettie and Chittenden 2002). In a study of 30 acquisition permission email marketing campaigns run by Claritas (UK) Ltd., it was found higher response rates (click through to URL) correlated with more attractive incentives (Rettie and Chittenden 2002).

H3: Permission marketing communications are likely to have a significant effect on total sales.

H3a: Permission marketing communications are likely to have a significant effect on permission marketing promotional sales.

H3b: Permission marketing communications are likely to have a significant effect on permission marketing non-promotional sales.

Permission marketing recipients have access to a computer, the internet and email; demographic commonality may exist among the group. However, results from a study by Tizende et. al. (2002) suggested that demographic variables may be weak indicators of response. According to a study by Haghirian and Madlberger (2005), the age of the advertising recipient reflecting on the perceived advertising value and on their attitude toward advertising via mobile devices was not supported.

H4: Permission marketing respondents are unlikely to have similar demographic profiles.

PROPOSED METHODOLOGY

To test these hypotheses, an online questionnaire (composed and housed at a proprietary survey site) can be developed and linked to a permission marketing message to measure the level of response generated by this permission marketing effort. Advantages of e-mail surveys are the speed of data collection, above average response rates (58%), low financial resource implications and short response time. Finally, the demographic profile of Internet users in the United States towards 1998 has started to mirror a general population reducing gender bias (Ilieva et. al., 2002).

Potential limitations of this proposed methodology include sampling error (non-random sample), small sample size and/or response rate and non-response errors. Analysis of respondents based on the date of their survey submission may identify significant differences within the group. Limitations

can be minimized by sending four reminder email messages during the promotional timeframe to the group and offering a prize or gift as an incentive to participate (Andrews et al. 2003).

The online survey would measure the stages of the CRI model including awareness, comprehension and intention to purchase based on the permission marketing message. Awareness would be determined by the percentage of survey respondents opening all four of the weekly email messages. Comprehension would be gauged by the percentage of survey respondents ranking permission marketing messages as the first order of the sources they relied on to find information. Intention would be measured by the respondent response to price (value) being extremely important in factoring their decision making. Action would be valued as the percentage of respondents who redeemed coupons at the retail location during the promotional period in order to determine the overall CRI index.

As Andrews (2003) suggests, the consumer would be asked to bring a coupon, included in the survey, into one of the retail stores in order to redeem it for a small gift and to be entered into a drawing for the chance of winning a larger prize. At the time of coupon redemption, the items sold (if any) to the customer would be tracked (amount and dollars of items sold that were promoted in the flyer and were on sale along with the amount and dollars of items sold that were not promoted in the flyer and were not on sale) to measure sales results. Finally, the survey would include questions relating to demographic variables to determine if there exists any degree of commonality among respondents.

CONTRIBUTIONS

Permission marketing has become a popular tool to marketers. It is claimed that permission marketing allows marketers to advertise to their target market with lower cost compared with traditional marketing. At the same time, it is believed that permission marketing allows consumers to be more receptive to advertising content as well as helps reduce consumers' search time in decision making process. However, it is still unclear how effective permission marketing is in generating consumer response; i.e., purchase.

This paper conducted comprehensive literature review in the area of permission marketing and raised different questions for future research. Different hypotheses were developed based on the Customer

Response Index (CRI) Model. Future research can be done to understand the effectiveness of permission marketing initiatives; possibly a study to test consumer responses to a permission marketing program utilizing the CRI Model. The findings will provide a useful tool for marketers to assess the sales response of a permission marketing program and the ability of permission marketing to yield segmentation descriptors.

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